Dairy Farmer Counter-Cyclical Assistance

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Background

In FY1999-FY2001, Congress provided just over $32.5 billion in emergency spending for USDA programs, primarily to help farmers recover from low farm commodity prices and natural disasters. The majority of these funds were for supplemental direct farm payments made to producers of certain commodities, primarily grains and cotton, but also including soybeans, peanuts, tobacco and milk. Of this amount, dairy farmers received supplemental "market loss" payments of $200 million in FY1999 under the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277), $125 million under the FY2000 agriculture appropriations act (P.L. 106-78), and $675 million under the emergency provisions in the FY2001 agriculture appropriations act (P.L. 106-387).

Some dairy farmer groups sought a permanent direct payment program for dairy farmers to be included in the 2002 farm bill as a means of supplementing dairy farm income when farm milk prices are low. Prior to the emergency payments made each year on an ad-hoc basis in FY1999 through FY2001, dairy farmers generally were not recipients of direct government payments. However, some groups contended that farm milk prices had been volatile in recent years and that dairy farmers needed more income stability.

Separately, the Northeast Dairy Compact, which provided price premiums to New England dairy farmers when market prices fell below a certain level, expired on September 30, 2001. These premiums were funded by assessments on fluid milk processors whenever fluid farm milk prices in the region fell below $16.94 per hundredweight (cwt.). Supporters of the Northeast compact had sought for an extension of the compact; the Southeastern states were seeking new authority to create a separate compact. However, processors and Upper Midwest producers are strongly opposed to regional compacts.

Milk Income Loss Contract (MILC) Payments

Section 1502 of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171, the 2002 farm bill) contained authorization for a new counter-cyclical national dairy market loss payment program. (Upon implementation, USDA dubbed the program the "Milk Income Loss Contract (MILC) Payments" program.) This program does not replace the dairy price support program or federal milk marketing orders, the current federal milk pricing policy tools. Instead, it serves as an alternative to regional dairy compacts and ad-hoc emergency payments to farmers, by authorizing additional federal payments when farm milk prices fall below an established target price.

Under the new program, dairy farmers nationwide are eligible for a federal payment whenever the minimum monthly market price for farm milk used for fluid consumption in Boston falls below $16.94 per hundredweight (cwt.). In order to receive a payment, a dairy farmer must enter into a contract with the Secretary of Agriculture. While under contract, a producer potentially can receive a payment equal to 45% of the difference between the $16.94 per cwt. target price and the market price, in any month that the Boston market price falls below $16.94. A producer can receive a payment on all milk production during that month, but no payments will be made on any annual production in excess of 2.4 million pounds per dairy operation. All contracts expire on September 30, 2005, and payments were made retroactively to December 1, 2001.

This new dairy program is modeled after the Northeast dairy compact which was in effect in the six New England states from 1997 until its expiration on September 30, 2001. However, under the expired dairy compact, dairy processors were required to pay the difference between the $16.94 fluid milk target price and any market price shortfall for fluid use milk in the compact region. The new program shifts the responsibility of the payment from the processor (and ultimately the consumer) to the federal government.

USDA Implementation. USDA began accepting applications for the "Milk Income Loss Contract (MILC) Program" on August 15, 2002 and will continue to do so until the program expires on September 30, 2005.

To date, the monthly market price has been below the target price of $16.94 in every eligible month. The program payment rates for each month are displayed in the following table

Monthly Milk Income Loss Contract Payment Rates

Month	Payment Rate (per hundredweight)	Month	Payment Rate (per hundredweight)
December 2001	$0.77	September 2002	$1.45
January 2002	$0.78	***FY2002 Average***	***$1.08***
February 2002	$0.78		
March 2002	$0.93	October 2002	$1.59
April 2002	$1.00	November 2002	$1.39
May 2002	$1.09	December 2002	$1.43
June 2002	$1.20	January 2003	$1.41
July 2002	$1.38	February 2003	$1.56
August 2002	$1.45	March 2003	$1.75

USDA also determined how to handle certain implementation issues that were not addressed in the authorizing legislation. For example, the legislation limits individual payments to the first 2.4 million lbs. of annual production, but does not address whether a producer with annual production in excess of the limit can choose which month's production would receive a payment. Larger producers wanted this flexibility so that they could waive payments in a month when the payment rate is relatively low, if they thought the payment rate might be higher in later months of the year. USDA announced that beginning in FY2003, it will allow an individual producer to designate which month to receive the first payment for the fiscal year. The producer must designate the starting month by the 15th of the preceding month. Once the selected month arrives, producers will continue to receive payments from that month forward, until payments are received on 2.4 million lbs. of production, or the end of the fiscal year, whichever comes first.

Estimated Cost of the MILC Program. There is a wide range of estimates on the projected cost of the new dairy program over its nearly 4-year life. Based on market conditions in March 2002, the Congressional Budget Office (CBO) estimated total direct federal payments of $963 million over the life of the program. One year later, in its baseline budget estimates in March 2003, CBO revised its total cost estimate for the MILC program to $4.2 billion. Independent estimates from the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri and USDA show that the total cost could be about $4.5 billion. The main reason for the disparity between the 2002 estimate and the 2003 revisions is that market prices for farm milk over the past year have been far below earlier expectations. USDA announced in its FY2004 budget summary, released in February 2003, that the estimated outlays of the program will be $2.4 billion in FY2003 (consisting of the retroactive payments and the regular payments), and an estimated $1.1 billion in FY2004.

CRS Products

In this Briefing Book:
Dairy Price Support Program.

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